

<b>TO:</b> <b>Mail Stop 8</b> <b>Director of the U.S. Patent and Trademark Office</b> <b>P.O. Box 1450</b> <b>Alexandria, VA 22313-1450</b>	<b>REPORT ON THE</b> <b>FILING OR DETERMINATION OF AN</b> <b>ACTION REGARDING A PATENT OR TRADEMARK</b>
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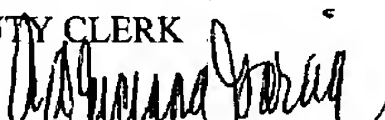
In Compliance with 35 U.S.C. § 290 and/or 15 U.S.C. § 1116 you are hereby advised  
that a court action has been filed in the U.S. District Court San Diego on the following Patents or Trademarks:

<b>DOCKET NO.</b>	<b>DATE FILED</b>	<b>U.S. DISTRICT COURT</b>
07cv1947	10/4/2007	Southern District of California
<b>PLAINTIFF</b>		<b>DEFENDANT</b>
IDSMART, et al.		IVI Smart Technologies, Inc.
<b>PATENT OR TRADEMARK NO.</b>	<b>PATENT OR TRADEMARK NO.</b>	<b>PATENT OR TRADEMARK NO.</b>
1 7278025	6	11
2	7	12
3	8	13
4	9	14
5	10	15

In the above-entitled case, the following patent(s)/trademark(s) have been included:

<b>DATE INCLUDED</b>	<b>INCLUDED BY</b>		
	<input type="checkbox"/> Amendment	<input type="checkbox"/> Answer	<input type="checkbox"/> Cross Bill <input type="checkbox"/> Other Pleading
<b>PATENT OR TRADEMARK NO.</b>	<b>PATENT OR TRADEMARK NO.</b>	<b>PATENT OR TRADEMARK NO.</b>	
1	6	11	
2	7	12	
3	8	13	
4	9	14	
5	10	15	

In the above-entitled case, the following decision has been rendered or judgment issued:

<b>DECISION/JUDGMENT</b>		
		
<b>CLERK</b>	<b>(BY) DEPUTY CLERK</b>	<b>DATE</b>
W. Samuel Hamrick, Jr.		10/16/08

own. See Cardinal Chem. Co. v. Morton Int'l, Inc., 508 U.S. 83, 96 (1993) (holding that Declaratory Judgment Act necessarily supports jurisdiction where "a party has actually been charged with infringement of the patent"); Adenta GmbH v. Orthoarm, Inc., 501 F.3d 1364, 1370 (Fed. Cir. 2007) (affirming denial of motion to dismiss where licensee had indicated that it would no longer pay royalties on an invalid patent, and patentee responded with letter threatening to "pursue its available legal remedies" for breach of license); Vanguard Research, Inc. v. PEAT, Inc., 304 F.3d 1249, 1254 (Fed. Cir. 2002) (describing, pre-MedImmune, "an express threat of litigation" as "the best evidence of a reasonable apprehension of suit").

Upon closer review, however, Barrett's isolated remark does not establish jurisdiction once the Court contrasts the facts of this case with the circumstances in recent precedents where the Federal Circuit has found jurisdiction. For example, both parties cite SanDisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372 (Fed. Cir. 2007). There, in a meeting to discuss a cross-license agreement, the defendant patentee provided "a thorough infringement analysis presented by seasoned litigation experts" of which of the plaintiff's products infringed the elements of particular claims of identified patents. Id. at 1382. The litigation experts "liberally referred to [plaintiff's] present, ongoing infringement of [defendant's] patents and the need for [plaintiff] to license those patents." Id. After the meeting, the patentee followed up with over three hundred pages of patents, engineering reports on plaintiff's products, and analytic diagrams showing alleged infringement. Id. In sum, the patentee conveyed "that it had made a studied and determined infringement determination[.]" Id. Ultimately, the Federal Circuit held that jurisdiction attached "where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party" (and the other party asserted its right to proceed in that activity without a license). Id. at 1381. Because the patentee "engaged in a course of conduct that show[ed] a preparedness and willingness to enforce its patent rights", the Federal Circuit was not persuaded by a lone statement from the patentee's vice president of intellectual property and licensing that the patentee would not sue the declaratory plaintiff. Id. at 1382-83.

SanDisk is representative of those Federal Circuit precedents finding subject matter jurisdiction where the declaratory judgment defendant has diligently asserted its patent rights on

1 multiple occasions. E.g., Micron Tech., 518 F.3d at 900 (finding jurisdiction where the  
2 declaratory judgment defendant “pursue[d] a systematic licensing and litigation strategy” that  
3 consisted of warning letters, follow-up correspondence, lawsuits against the leading manufacturers  
4 in the field, and promises in press releases and annual reports of “aggressive pursuit” of industry-  
5 wide licensing); Sony Elecs., 497 F.3d at 1285 (finding actual controversy where, during several  
6 months of correspondence, defendant “explicitly identified” the allegedly infringed patents, “the  
7 relevant claims of those patents, and the relevant [plaintiff’s] products” that allegedly infringed);  
8 Capo, 387 F.3d at 1353 (deciding, pre-MedImmune, that jurisdiction existed where patentee’s  
9 president told defendant’s president at a supplier meeting that patentee vigorously enforced its  
10 rights in a large collection of patents, and stated in a subsequent voicemail that, if defendant did  
11 not return the call promptly, he would “presume that [plaintiff was] just ducking and racing  
12 forward to infringement”).

13       The case at bar is, essentially, SanDisk in reverse. Here, neither Barrett nor other  
14 representative of IVI Smart submitted “thorough infringement analysis” explicating which of  
15 IDsmart’s products infringed particular claims of the 025 patent. IVI Smart did not follow up the  
16 settlement negotiations with written documentation concerning infringement or any other evidence  
17 of “a studied and determined infringement determination.” In short, IVI Smart has not pursued a  
18 dedicated “course of conduct” to preserve its rights in the 025 patent. But, Barrett did make a  
19 single remark about IVI Smart’s filing an infringement action. Barrett did not provide any  
20 specifics about which IDsmart products would infringe the 025 patent or which claims of the  
21 patent would be infringed. See Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 889 (Fed. Cir. 1992)  
22 (holding, pre-MedImmune, that mere “jawboning” typical in licensing negotiations did not give  
23 rise to reasonable apprehension of suit, where context revealed that patentee took no subsequent  
24 action against the plaintiff). If a defendant cannot evade jurisdiction by one oral promise not to  
25 sue in the face of extensive correspondence and conversations anticipating litigation, then IVI  
26 Smart did not create jurisdiction by one oral promise to sue in the absence of any such  
27 correspondence or other conversations. Considering the totality of the circumstances, this stray,  
28 generic reference to a patent infringement suit did not create an immediate, real “substantial

1 controversy” concerning the 025 patent because the remark was unsupported by any prior or  
 2 subsequent indicia that IVI Smart would actually enforce its patent rights.<sup>5</sup>

3 The Northern District action does not establish IVI Smart’s willingness to enforce its rights  
 4 in the 025 patent because plaintiffs concede that the Northern District action pertains to unrelated  
 5 technology. A patentee “engages in a course of conduct that shows a willingness to protect [its]  
 6 technology” when it has filed another lawsuit concerning the same technology, even if the other  
 7 lawsuit does not plead a cause of action for patent infringement. Vanguard Research, 304 F.3d at  
 8 1255 (quoting Goodyear Tire & Rubber Co. v. Releasomers Inc., 824 F.2d 953, 956 (Fed. Cir.  
 9 1987)); cf. Prasco, 537 F.3d at 1341 (assigning minimal weight to a prior suit concerning a  
 10 different product covered by unrelated patents in determining reasonableness of assumption that  
 11 patentee would sue declaratory judgment plaintiff concerning a new product). Here, in opposing  
 12 IVI Smart’s motion to transfer, plaintiffs emphatically argue the dissimilarity between this action  
 13 and the Northern District action: “[a]lthough there are allegations of the misappropriation of trade  
 14 secrets raised in the Northern District action, any alleged trade secrets *must as a matter of law be*  
 15 *different* from the ‘025 patent at issue in this Court.” (Opp., at 18 (emphasis in the original).) By  
 16 their insistence that the two lawsuits implicate different technologies, plaintiffs fail to carry their  
 17 burden of showing how the filing of the Northern District action helped to create an “actual  
 18 controversy” under the totality of the circumstances.<sup>6</sup>

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 20 <sup>5</sup> Plaintiffs argue that IVI Smart’s payment of the issue fee on August 29, 2007 confirms its  
 21 stated intention to sue for patent infringement. However, this evidence is not as corroborative as  
 22 plaintiffs would like. For one thing, plaintiffs cannot make up their mind whether the issue fee was  
 23 paid before or after the conversation in which Barrett threatened Gardiner with an infringement  
 24 lawsuit. (Compare Opp., at 6 n.2 & 13-14 (alleging that issue fee was paid after the infringement  
 25 threat) with id. at 10 n.5 (alleging that the issue fee was paid the day before Barrett made the  
 26 statement).) To the extent that plaintiffs are simply arguing proximity, the issue fee had to be paid by  
 September 11, 2007—three months from the mailing date of the Notice of Allowance—and no  
 extension was allowable. (See Bader Decla. IOT Motion, Exhibit E.) IVI Smart’s payment of the  
 issue fee on August 29 is consistent with the representation of its outside counsel that she was not  
 aware of the details of the Notice of Allowance until Barrett confirmed the allowance of 18 claims by  
 email on August 28, 2007. (Fritz Reply Decla. ¶ 7 & Exhibit B.)

27 <sup>6</sup> Although defendant perceives a closer relationship between this action and the Northern  
 28 District action (i.e., sufficiently close to warrant transfer), defendant never contradicts plaintiffs’  
 assertion that the two actions involve different technologies. Instead, defendant’s argument is that the  
 Northern District action may result in an outcome that effectively resolves the issues in this  
 case—e.g., an injunction barring Gardiner from the biometric smart card industry, or a factual finding

1 Finally, plaintiffs fail to survive the second prong of the Federal Circuit's inquiry because  
 2 plaintiffs do not show their "meaningful preparation to conduct potentially infringing activity."  
 3 Cat Tech, 528 F.3d at 880. Plaintiffs discuss their ability to produce biometric smart cards,  
 4 demonstrations of those products at trade shows, and business development negotiations. (Opp., at  
 5 15-16.) These generalized representations, however, do not respond to defendant's argument that  
 6 plaintiffs have not developed or produced "a product that implicates the particular contents of the  
 7 IVI Smart patent[.]" (Memo. ISO Motion, at 23.) As defendant points out, plaintiff's products  
 8 could be "nothing other than an assemblage of commercially available components—a very  
 9 different product from the e-Smart solution and one that may not have the configuration addressed  
 10 by the patent[.]" (Id. at 23-24.)

11 In the language of Federal Circuit precedent, plaintiffs have not established "the extent to  
 12 which the technology in question is 'substantially fixed' as opposed to 'fluid and indeterminate' at  
 13 the time declaratory relief is sought." Cat Tech LLC, 528 F.3d at 882 (quoting Sierra Applied  
 14 Scis., Inc. v. Advanced Energy Indus., Inc., 363 F.3d 1361, 1379 (Fed. Cir. 2004)). This is a case  
 15 where "further factual development" about plaintiffs' products and the claims of the 025 patent  
 16 would "significantly advance [a court's] ability to deal with the legal issues presented." Caraco  
 17 Pharm. Labs., Ltd. v. Forest Labs., Inc., 527 F.3d 1278, 1295 (Fed. Cir. 2008) (quoting Nat'l Park  
 18 Hospitality Ass'n v. Dep't of Interior, 538 U.S. 803, 812 (2003)). The mere fact that plaintiffs are  
 19 involved somewhere in the field of biometric smart card production is too vague to suffice. Given  
 20 "the lack of clearly delineated, adverse positions by the parties," where the Court does not even  
 21 know which claims the declaratory judgment defendant might assert against the plaintiffs in a  
 22 patent infringement action, the controversy is presently unfit for resolution. Prasco, 537 F.3d at  
 23 1340 n.8; see Benetec Austl., 495 F.3d at 1349 (finding no justiciable controversy arising from  
 24 plaintiff's future plan to expand into new lines of animal research because there was "insufficient  
 25 information to assess whether [the] possible future animal work would be infringing or not").  
 26 Although plaintiffs correctly disclaim responsibility for any failure by IVI Smart to investigate  
 27 \_\_\_\_\_  
 28 to support an "unclean hands" defense barring this action. (See Memo. ISO Motion, at 30; Reply, at 8.)



1 plaintiffs' products prior to threatening suit, see Capo, 387 F.3d at 1356, plaintiffs are held  
 2 responsible for showing a totality of the circumstances that gives rise to an "actual controversy"  
 3 under the Declaratory Judgment Act. In a factual challenge to subject matter jurisdiction, this  
 4 burden includes evidence of "significant, concrete steps to conduct infringing activity[.]" Cat  
 5 Tech, 528 F.3d at 880. Having presented inadequately "meaningful" and "concrete" allegations of  
 6 potential infringement of the 025 patent, plaintiffs have not brought a controversy of sufficient  
 7 immediacy and reality to warrant adjudication at this time.<sup>7</sup>

8 The Court belabors this point about the inadequacy of plaintiffs' allegations of potentially  
 9 infringing activity because, even if Barrett's statement triggered declaratory judgment jurisdiction,  
 10 the Court would still exercise its discretion not to hear the case. Based on the present state of the  
 11 record, the Court is not persuaded that plaintiffs confront an "in terrorem choice" between ever-  
 12 increasing liability for patent infringement and exiting the biometric smart card business  
 13 altogether. Additionally, the "considerations of wise judicial administration" counsel against the  
 14 Court launching into the adjudication of infringement litigation with no real idea about what  
 15 products or claims of the 025 patent are at issue. Given the presently thin factual record on  
 16 infringement, the Court finds that deciding any actual controversy at this point would still come  
 17 uncomfortably close to rendering an advisory opinion on a hypothetical set of facts. Therefore,  
 18 even if an actual controversy existed within the meaning of the Declaratory Judgment Act, the  
 19 Court would not hear the action at this time.

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23 <sup>7</sup> In finding that plaintiffs have not provided enough information about their potentially  
 24 infringing activity, the Court remains mindful of the Federal Circuit's warning in Arrowhead  
 25 Industrial Water that "[i]t is at best incongruous to require that one seeking a declaration of  
 26 noninfringement prove its process or product is the 'same as' or 'identical' to the patented process or  
 27 product." 846 F.2d at 738. The court explained that such a requirement would effectively concede  
 28 infringement and limit plaintiffs to declaratory judgments of invalidity or unenforceability. Id. at 738  
 n.10. Nonetheless, even Arrowhead Industrial Water required "a showing that plaintiff's conduct  
 evidences a real interest in an activity that may, potentially, be enjoined." Id. In that case, the  
 declaratory plaintiff made that showing via an expert affidavit describing the plaintiff's process as  
 involving elements that were cited in a claim of the patent-in-suit. Id. at 739. Per the Federal  
 Circuit's recent opinion in Cat Tech, the same kind of showing continues to be relevant to the totality  
 of the circumstances inquiry post-MedImmune. 528 F.3d at 880.

**CONCLUSION**


In summary, the totality of the circumstances—issuance of the 025 patent, defendant's single vague threat of patent litigation unsupported by any other indication of an intent to sue, a separate lawsuit indisputably involving different technology, and plaintiffs' production of biometric smart cards—do not "show that there is a substantial controversy . . . of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." MedImmune, 127 S. Ct. at 771. Therefore, the Court **GRANTS** defendant's motion to dismiss the complaint for lack of subject matter jurisdiction. This dismissal **SHALL BE WITHOUT PREJUDICE**, and the Clerk **SHALL CLOSE** the file.

Because the dismissal for lack of subject matter jurisdiction **CONCLUDES** this litigation, the Court **DENIES AS MOOT** Hinshaw & Culbertson, LLP's motion to withdraw as counsel for defendant.

Finding that each "Declaration of Maranda E. Fritz in Further Support of Motion to Withdraw as Counsel" contains confidential attorney-client communications, the Court finds good cause to seal these declarations in order to prevent defendant from being harmed or prejudiced by the disclosure of these communications. See Phillips ex rel. Estates of Byrd v. Gen. Motors Corp., 307 F.3d 1206, 1210-11 (9th Cir. 2002). Therefore, the Court **GRANTS** defendant's motion to seal these declarations and **DIRECTS** the Clerk to seal Document Numbers 28 and 30. The Court **DECLINES** to order the additional relief requested by Kasowitz Benson (specially appearing on defendant's behalf).

IT IS SO ORDERED.

DATED: September 29, 2008

  
Honorable Janis L. Sammartino  
United States District Judge

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8 **UNITED STATES DISTRICT COURT**  
9 **SOUTHERN DISTRICT OF CALIFORNIA**  
10

11 IDSMART, LLC and MICHAEL  
12 GARDINER,

Plaintiffs,

13 vs.

14  
15 IVI SMART TECHNOLOGIES, INC.,

16 Defendant.  
17

CASE NO. 07CV1947 JLS (AJB)

**ORDER (1) GRANTING MOTION  
TO DISMISS FOR LACK OF  
SUBJECT MATTER  
JURISDICTION, (2) DENYING AS  
MOOT MOTION TO WITHDRAW  
AS COUNSEL, and (3) GRANTING  
DEFENDANT'S MOTION TO  
SEAL FRITZ DECLARATIONS**

(Doc. Nos. 5, 21, & 31)

18 Presently before the Court is IVI Smart Technologies, LLC's ("defendant" or "IVI Smart")  
19 motion to dismiss, stay, or transfer this declaratory judgment action brought by IDsmart, LLC and  
20 Michael Gardiner ("plaintiffs"). (Doc. No. 5.) Defendant's chief argument for dismissal is that  
21 the Court lacks subject matter jurisdiction to adjudicate plaintiffs' claims for a declaration of  
22 invalidity and non-infringement because plaintiffs have no "actual controversy" within the  
23 meaning of the Declaratory Judgment Act. Applying the standard announced by the Supreme  
24 Court in MedImmune, Inc. v. Genentech, Inc., this Court finds that the totality of the  
25 circumstances do not establish a "substantial controversy . . . of sufficient immediacy and reality to  
26 warrant the issuance of a declaratory judgment." — U.S. —, 127 S. Ct. 764, 771 (2007) (quoting  
27 Md. Cas. Co. v. Pac. Coal & Oil Co., 312 U.S. 270, 273 (1941)). Because the Court dismisses the  
28 action for lack of subject matter jurisdiction, Hinshaw and Culbertson, LLP's motion to be



1 relieved as counsel for defendant is moot.<sup>1</sup> (Doc. No. 21.) To protect confidential  
 2 communications disclosed therein, the Court also grants defendant's ex parte application, filed  
 3 through specially appearing counsel, to seal each "Declaration of Maranda E. Fritz in Further  
 4 Support of Motion to Withdraw as Counsel." (Doc. No. 31.)

## 5 BACKGROUND

### 6 A. Facts

7 Defendant is a Delaware corporation which has, since 2000, pursued the business of  
 8 developing and marketing a "biometric identification verification system"—essentially, the  
 9 necessary technology for fingerprint identification systems. (Compl. ¶ 3; Bader Decla. IOT  
 10 Motion, Exhibit D ¶ 21.) Defendant is the assignee of the inventions and patent applications  
 11 related to this technology that were prepared by its subsidiary, e-Smart Technologies, Inc. ("e-  
 12 Smart"). (Bader Decla. IOT Motion, Exhibit D ¶ 26.) In early 2006, Gardiner was a vendor to e-  
 13 Smart and had provided manufacturing services. (Fritz Decla. ISO Motion ¶ 4.)

14 In August 2006, Gardiner founded IDsmart, LLC, a Nevada corporation with its principal  
 15 place of business in San Diego County. (Compl. ¶ 1; Gardiner Decla. IOT Motion ¶ 5; see Fritz  
 16 Decla. ISO Motion, Exhibit A (IDsmart's articles of registration).) Gardiner remains CEO of  
 17 IDsmart. (Compl. ¶ 2.) IDsmart's business is the development, manufacture, and marketing of  
 18 biometric smart cards. (Id. ¶ 1; Gardiner Decla. IOT Motion ¶ 5.) IDsmart has manufactured  
 19 demonstration cards that it presented internationally at various trade shows and has entered a joint  
 20 agreement with a Fortune 100 company to demonstrate IDsmart's cards to a nationwide base of  
 21 potential customers. (Gardiner Decla. IOT Motion ¶¶ 9-11, 14.)

22 In September 2006, e-Smart and IVI Smart filed suit in the United States District Court for  
 23 the Northern District of California against Wayne Drizin (a developer of the e-Smart technology  
 24 and e-Smart consultant until June 2006), Gardiner, and several Gardiner-controlled corporate

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26 <sup>1</sup> Also, because the Court dismisses for lack of subject matter jurisdiction, the Court does not  
 27 reach defendant's arguments that the complaint does not state a cognizable claim for patent invalidity,  
 28 the action should be transferred to the Northern District of California pursuant to the first-to-file rule,  
 or the Court should exercise its discretionary power to transfer the action pursuant to 28 U.S.C. §  
 1404(a).

1 entities ("the Northern District action"). (See Fritz Decla. ISO Motion ¶ 14 & Exhibit E.) e-Smart  
 2 and IVI Smart pled causes of action for violation of the federal Computer Fraud and Abuse Act,  
 3 violation of California's Uniform Trade Secrets Act, tortious interference with prospective  
 4 business relations, Lanham Act violations, unfair competition, and misappropriation/conversion.  
 5 (Id.) The operative complaint in the Northern District action did not name IDsmart, LLC as a  
 6 defendant, and did not plead a cause of action for patent infringement. (Id.) The parties in the  
 7 Northern District action have stipulated to prohibiting Drizin from participating in the smart card  
 8 business and prohibiting all defendants in that action from using e-Smart's proprietary or trade  
 9 secret technology (or any technology derived therefrom).<sup>2</sup> (Fritz Decla. ISO Motion ¶ 15 &  
 10 Exhibit F.)

11 The parties in the Northern District action commenced settlement discussions in August  
 12 2007. Gardiner and Richard Barrett, then-Chief Operating Officer for e-Smart, participated in  
 13 these discussions. (Barrett Decla. IOT Motion ¶¶ 2, 7; Gardiner Decla. IOT Motion ¶ 17.) The  
 14 parties agreed that the Gardiner—Barrett discussions would take place off the record for the  
 15 exclusive purpose of settlement and would not be subsequently used by either party. (Fritz Decla.  
 16 ISO Motion ¶ 20 & Exhibit G.) During these discussions, Gardiner demonstrated a working  
 17 biometric smart card to Barrett and indicated that IDsmart could manufacture such cards for e-  
 18 Smart, but only if e-Smart and IVI Smart dismissed all pending litigation against Gardiner and his  
 19 entities. (Barrett Decla. IOT Motion ¶ 7; Gardiner Decla. IOT Motion ¶ 23.)

20 Gardiner and Barrett met again toward the end of August 2007 in San Diego. Barrett  
 21 represented that Gardiner's list of proposed settlement terms was not entirely acceptable to e-  
 22 Smart and IVI Smart. (Barrett Decla. IOT Motion ¶ 9; Gardiner Decla. IOT Motion ¶ 26.) Barrett  
 23 further represented that, if the parties did not reach mutually acceptable settlement terms, IVI  
 24 Smart would then sue Gardiner and his companies for infringement of a patent that the United  
 25 States Patent and Trademark Office would soon issue, based on IVI's Patent Application Serial  
 26 No. 10/659,834. (Compl. ¶ 9; Barrett Decla. IOT Motion ¶ 10; Gardiner Decla. IOT Motion ¶ 27.)

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 28 <sup>2</sup> BioSensor LLC, a subsidiary of IVI Smart, also brought a lawsuit in Hawaii state court naming, inter alia, IDsmart and Gardiner as defendants. (Gardiner Decla. IOT Motion ¶ 16; Barrett Decla. IOT Motion ¶ 2.)

1 Patent Application Serial No. 10/659,834 was allowed in June and issued as U.S. Patent  
2 No. 7,278,025 ("025 Patent") on October 2, 2007. (Compl. ¶ 6 & Exhibits A-B.) Barrett resigned  
3 from e-Smart by letter dated October 17, 2007 to Mary Smart, CEO of e-Smart. (Fritz Reply  
4 Decla., Exhibit A.) In his letter of resignation, Barrett asserted that e-Smart had constructively  
5 terminated him beginning on August 22, when Smart ceased communicating with Barrett by  
6 telephone. (Id.)

7 **B. Procedure**

8 Plaintiffs filed the complaint in this action on October 4, 2007. (Doc. No. 1.) The  
9 complaint seeks a declaration that the 025 Patent is invalid and that plaintiffs' products do not  
10 infringe the claims of the 025 Patent. (Compl. ¶¶ 14, 18.)

11 Defendant filed the present motion to dismiss et al. on November 15, 2007. (Doc. No. 5.)  
12 Plaintiffs filed their opposition on January 18, 2008. (Doc. No. 13.) Defendant replied on January  
13 25, 2008. (Doc. No. 14.)

14 Hinshaw & Culbertson, LLP filed its motion to withdraw on August 29, 2008. (Doc. No.  
15 21.) Kasowitz, Benson, Torres & Friedman LLP ("Kasowitz Benson") filed a conditional  
16 opposition to withdrawal on IVI Smart's behalf on September 11, 2008 (Doc. No. 22), which was  
17 subsequently withdrawn on September 18, 2008 pursuant to a negotiated agreement (Doc. No. 27).  
18 Hinshaw & Culbertson, LLP filed its reply on September 23, 2008 and then filed an amended  
19 declaration the following day. (Doc. Nos. 28 & 30.)

20 Finding both matters fully briefed and appropriate for disposition on the papers without  
21 oral argument, the Court took both matters off calendar and under submission, pursuant to Civil  
22 Local Rule 7.1(d)(1). On September 25, 2008, after the matters were take under submission,  
23 Kasowitz Benson specially appeared on defendant's behalf to file an ex parte application  
24 requesting that the Court, inter alia, remove from the public record the reply declarations of  
25 Maranda Fritz filed in support of the motion to withdraw.

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## LEGAL STANDARDS

### A. Motion to Dismiss for Lack of Subject Matter Jurisdiction

A party may move to dismiss the complaint for lack of subject matter jurisdiction, and the Court must dismiss the action when “the court determines at any time that it lacks subject matter jurisdiction[.]” Fed. R. Civ. P. 12(b)(1), (h)(3). The plaintiff bears the burden of establishing jurisdiction. Kokkonen v. Guardian Life Ins. Co., 511 U.S. 375, 377; In re Dynamic Random Access Memory (DRAM) Antitrust Litig., 538 F.3d 1107, 1110 (9th Cir. 2008). The Court must first determine whether it has jurisdiction, and must not reach the merits where jurisdiction is lacking. Bell v. Hood, 327 U.S. 678, 682 (1946); Orff v. United States, 358 F.3d 1137, 1151 (9th Cir. 2004).

Rule 12(b)(1) motions may challenge jurisdiction facially or factually. SafeAir for Everyone v. Meyer, 373 F.3d 1035, 1039 (9th Cir. 2004); White v. Lee, 227 F.3d 1214, 1242 (9th Cir. 2000). In the facial challenge, the defendant asserts the insufficiency of the complaint’s allegations to invoke federal jurisdiction as a matter of law, and the Court assumes the truth of those allegations. Whisnant v. United States, 400 F.3d 1177, 1179 (9th Cir. 2005); Cross v. Pac. Coast Plaza Invs., L.P., 2007 WL 951772, at \*1 (S.D. Cal. Mar. 6, 2007). In the factual challenge, the defendant disputes the substance of the jurisdictional allegations based on facts outside the pleadings. Safe Air, 373 F.3d at 1039; White, 227 F.3d at 1242. To adjudicate the factual challenge, the Court may review evidence beyond the complaint without converting the Rule 12(b)(1) motion into one for summary judgment. Savage v. Glendale Union High Sch., Dist. No. 205, Maricopa County, 343 F.3d 1036, 1039 n.2 (9th Cir. 2003); David v. Giurbino, 488 F. Supp. 2d 1048, 1054 (S.D. Cal. 2007). Once the moving party makes a factual challenge by bringing evidence before the Court, the opposing party must furnish its own affidavits or other evidence to establish subject matter jurisdiction. Safe Air, 373 F.3d at 1039; Savage, 343 F.3d at 1039 n.2. Without assuming the truth of the complaint’s factual allegations, the Court nonetheless resolves factual disputes in favor of the non-moving party. Dreier v. United States, 106 F.3d 844, 847 (9th Cir. 1996); Farrah v. Monterey Transfer & Storage, Inc., 555 F. Supp. 2d 1055, 1067-68 (N.D. Cal. 2008).

**B. Subject Matter Jurisdiction in Declaratory Judgment Actions Involving Patents**

Pursuant to the relevant provision of the Declaratory Judgment Act, “[i]n a case of actual controversy within its jurisdiction, . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.” 28 U.S.C. § 2201(a). Prior to 2007, the Federal Circuit employed a two-part test to determine whether an “actual controversy” existed in litigation seeking a declaratory judgment of invalidity and/or non-infringement:

[t]here must be both (1) an explicit threat or other action by the patentee which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit; and (2) present activity by the declaratory judgment plaintiff which could constitute infringement, or concrete steps taken with the intent to conduct such activity.

Teva Pharms. USA, Inc. v. Pfizer, Inc., 395 F.3d 1324, 1332 (Fed. Cir. 2005) (citing cases).

However, in MedImmune, Inc. v. Genentech, Inc., the Supreme Court held that the first prong (“reasonable apprehension of suit”) conflicted with its declaratory judgment jurisprudence. 127 S.Ct. at 774 n.11. Instead, the Supreme Court explained:

[its] decisions have required that the dispute be “definite and concrete, touching the legal relations of parties having adverse legal interests”; and that it be “real and substantial” and “admi[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising of what the law would be upon a hypothetical state of facts.”

Id. at 771 (quoting Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 240-41 (1937)). The Court further identified the ultimate question as “whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” Id. (quoting Md. Cas. Co., 312 U.S. at 273).

The MedImmune decision effectively creates a “more lenient legal standard [that] facilitates or enhances the availability of declaratory judgment jurisdiction in patent cases.” Micron Tech., Inc. v. MOSAID Techs., Inc., 518 F.3d 897, 902 (Fed. Cir. 2008). “[P]roving a reasonable apprehension of suit,” previously the required first prong, has become “one of multiple ways that a declaratory judgment plaintiff can satisfy the more general all-the-circumstances



1 test[.]” Prasco, LLC v. Medicis Pharm. Corp., 537 F.3d 1329, 1336 (Fed. Cir. 2008). Nonetheless,  
2 post-MedImmune, the Federal Circuit continues to find jurisdiction lacking where the plaintiff has  
3 not established an actual controversy sufficiently immediate and real to warrant a declaratory  
4 judgment. E.g., Prasco, 537 F.3d at 1341-42; Benitec Austl., Ltd. v. Nucleonics, Inc., 495 F.3d  
5 1340, 1348-49 (Fed. Cir. 2007). The party arguing for jurisdiction must “establish that such  
6 jurisdiction existed at the time the claim for declaratory relief was filed and that it has continued  
7 since.” Benitec Austl., 495 F.3d at 1344; see also Prasco, 537 F.3d at 1337 (focusing  
8 jurisdictional inquiry on the existing facts at the time the complaint was filed). Furthermore, as  
9 MedImmune was silent concerning the second prong of the prior jurisdictional test, subsequent  
10 Federal Circuit precedent continues to maintain that an actual controversy does not exist “[i]f a  
11 declaratory judgment plaintiff has not taken significant, concrete steps to conduct infringing  
12 activity[.]” Cat Tech LLC v. TubeMaster, Inc., 528 F.3d 871, 880 (Fed. Cir. 2008).

13 Even if jurisdiction exists pursuant to the Declaratory Judgment Act, the district court  
14 “retain[s] some measure of discretion to decline to hear the case”. Micron Tech., 518 F.3d at 902  
15 (citing Wilton v. Seven Falls Co., 515 U.S. 277, 289 (1995)). The Court may exercise this  
16 discretion where dismissal is “consistent with the purposes of the Declaratory Judgment Act and  
17 considerations of wise judicial administration.” Sony Elecs., Inc. v. Guardian Media Techs., Ltd.,  
18 497 F.3d 1271, 1285 (Fed. Cir. 2007); accord EMC Corp. v. Norand Corp., 89 F.3d 807, 814 (Fed.  
19 Cir. 1996). In the context of patents, the purposes of the Declaratory Judgment Act are to preclude  
20 “extra-judicial patent enforcement with scare-the-customer-and-run tactics that infect the  
21 competitive environment of the business community with uncertainty and insecurity” and to  
22 protect a patent owner’s competitors from “an in terrorem choice between the incurrence of a  
23 growing potential liability for patent infringement and abandonment of their enterprises.” Elecs.  
24 for Imaging, Inc. v. Coyle, 394 F.3d 1341, 1346 (Fed. Cir. 2005) (quoting Arrowhead Indus.  
25 Water, Inc. v. Ecolochem, Inc., 846 F.2d 731, 735 (Fed. Cir. 1988)).

## 26 DISCUSSION

27 In reviewing defendant’s motion, the Court concludes that defendant is making a factual  
28 challenge to the Court’s subject matter jurisdiction. Although some language in defendant’s



opening brief purports to challenge the legal adequacy of plaintiffs' jurisdictional allegations,<sup>3</sup> defendant also challenges the accuracy of the complaint's factual allegations (e.g., whether Barrett was an agent of IVI Smart when he threatened an infringement lawsuit) and introduces facts outside the complaint (e.g., that Barrett threatened infringement during settlement discussions concerning the Northern District action). Therefore, the Court considers the declarations and exhibits submitted both in support of and opposition to the pending motion.

Per the complaint, plaintiffs' basis for bringing this declaratory action is (1) IVI Smart's status as the assignee of the 025 patent and (2) Barrett's statement, in the capacity of an authorized representative of IVI Smart, that IVI Smart would sue plaintiffs for infringement once the 025 patent issued.<sup>4</sup> (Compl. ¶¶ 7, 9.) Also, in opposing defendant's motion, plaintiffs discuss the Northern District action already filed by IVI Smart et al. and elaborate on IDsmart's ongoing development of smart card products since its formation in 2006. These are the totality of the circumstances that the Court considers in determining whether a declaratory judgment should issue.

Under well-established Federal Circuit precedent, plaintiffs' notice or knowledge of the existence of IVI Smart's 025 patent does not establish declaratory judgment jurisdiction. Prasco, 537 F.3d at 1338; Capo, Inc. v. Dioptics Med. Prods., 387 F.3d 1352, 1355 (Fed. Cir. 2004); accord Arrowhead Indus. Water, 846 F.2d at 736 (explaining how this rule "protects quiescent patent owners against unwarranted litigation"). Here, of course, plaintiffs do not rely on the 025 patent alone, but on Barrett's reference to a threatened infringement suit once that patent issued. At first glance, Barrett's lone statement might seem like enough to establish jurisdiction all on its

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<sup>3</sup> See, e.g., Memo. ISO Motion, at 23 ("The allegations in this case fall well short of those which are required to support declaratory relief").

<sup>4</sup> Defendant asks the Court to strike paragraph 9 of the complaint, which contains Barrett's statement. Defendant argues that this statement from a settlement discussion is inadmissible pursuant to Federal Rule of Evidence 408. (Memo. ISO Motion, at 27-29.) The Court does not need to decide this issue because, even taking into account Barrett's statement, the totality of the circumstances does not establish a "substantial controversy" warranting a declaratory judgment. Nonetheless, the Court recognizes that, in the context of trademark infringement, the Ninth Circuit has held that statements from settlement negotiations are admissible "to satisfy the jurisdictional requirements of an action for declaratory relief." Rhoades v. Avon Prods., Inc., 504 F.3d 1151, 1161 (9th Cir. 2007). Also, consistent with the construction of the facts in the light most favorable to plaintiffs, the Court assumes without deciding that Barrett was an agent of IVI Smart when he made the statement.